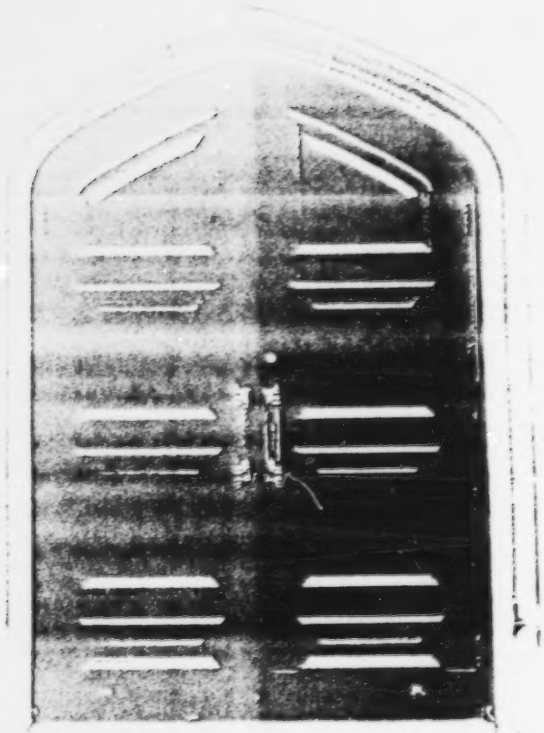
DECADE OF CHALLENGE



Annual Report
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C.D. Howe Institute

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The C.D. Howe Institute is an independent, nonprofit, research and educational institution. Its goals are to identify current and emerging economic and social policy issues facing Canadians; to analyze options for public- and private-sector responses; to recommend, where appropriate, particular policy options that, in the Institute's view, best serve the national interest; and to communicate the conclusions of its research to a domestic and international audience in a clear, nonpartisan way.

While its focus is national and international, the Institute recognizes that each of Canada's regions may have a particular perspective on policy issues and different concepts of what should be national priorities. The Institute also recognizes that an understanding of those regional perspectives is a crucial ingredient in forging a national consensus. To that end, the Institute is in constant interaction with its members and with the public in all cities of Canada.

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The Institute Looks Ahead to the 1990s

A Message from the Chairman

Nineteen eighty-nine was a year of change and challenge for the C.D. Howe Institute and for Canada as a whole.

Maureen Farrow returned to The Coopers & Lybrand Consulting Group at the end of August 1989, after 2½ years as the Institute's President. Mrs. Farrow skillfully guided the Institute through a period of intense public debate over issues, such as free trade, that are likely to have a significant impact on Canada's economic future. The Institute's members and directors wish Mrs. Farrow every success in her new responsibilities.

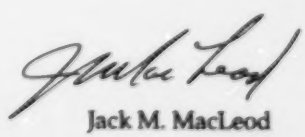
The Institute also said farewell to Edward A. Carmichael, who has taken up the position of Senior Economist with Burns Fry Limited. Mr. Carmichael's contributions to the Institute since 1982, first as Director of Policy Research and then as Vice-President, are greatly appreciated.

"Canadian public policy must be formulated within a rapidly changing global economic environment."

The Institute's new President, Thomas E. Kierans, hardly needs any introduction to many of our members. A graduate of McGill University and the University of Chicago, he was formerly President of McLeod Young Weir Limited (later ScotiaMcLeod Inc.), Chairman of the Energy Options Advisory Committee (to the federal government), Chairman of the Ontario Economic Council, and a Director of the Institute for Research on Public Policy. Mr. Kierans undoubtedly will put his extensive experience in Canadian public policy issues to good use at the Institute.

A number of changes also took place to the Institute's Board of Directors in 1989. John Fisher, Kent Jespersen, and David Morton were appointed to the Board, while David Culver, John Evans, Wallace Madill, and Robert Richardson retired. The Institute wishes to acknowledge the valuable support that each retiring director has contributed over the years, and to thank Mr. Culver for agreeing to become a Counsellor to the Institute.

On the wider scene, 1989 began with the implementation of the Canada-U.S. Free Trade Agreement and ended with quite an extraordinary drama unfolding in Eastern Europe. While these two events have nothing obvious in common, they are both reflections of the challenge of a rapidly changing global economic environment, within which Canadian public policy must be formulated in the coming decade. I am confident that, under Mr. Kierans' stewardship, the Institute will continue to make a significant contribution to thoughtful Canadian public policy debates.



Jack M. MacLeod
Chairman

A Constructive Part of the Solution

Report of the President

Nineteen ninety will be a watershed year for Canada and for the C.D. Howe Institute. On the macroeconomic policy front, Canadians face stiff fiscal, monetary, and trade challenges. The Institute will reinforce its traditional beachheads in these areas, providing authoritative analyses and

"Nineteen ninety will be a watershed year for Canada and for the C.D. Howe Institute."

commentary on the consolidated federal and provincial deficits, with their concomitant trade and debt-servicing implications. The Institute is also offering up carefully researched and readable assessments of the Bank of Canada's goal of price stability and of the merits of maintaining a flexible exchange-rate policy. In trade, we will continue to monitor the progress of the evolving dispute settlement mechanisms and to chronicle the subsidies negotiations under the Free Trade Agreement. The Uruguay Round of multilateral trade negotiations will, of course, be the most important item on the international trade agenda in 1990. As those negotiations climax at year-end, the Institute will provide members with an analysis of developments.

The Institute is also set to make a significant contribution in the area of environmental policy. We held a two-day conference with the energy industry in Calgary in January. The papers presented at the conference have been published under the title *The Environmental Imperative: Market Approaches to the Greening of Canada*. The Institute will also publish an analysis of the specific applicability of market mechanisms to enhance environmental initiatives. Another publication will outline the process options available to government to deal with the environmental challenge. The aim of this study will be to help the private sector to assess the implications of alternative approaches to balancing the goals of economic growth and environmental improvement.

"Canada has a great opportunity to capitalize on the challenges of the 1990s."

Another area of study will be how to finance the growing burden of health care. We plan a major workshop on the issue in Vancouver in Fall 1990. Social policy reform and privatization issues will also occupy our attention this year.

The list of research priorities goes on. It is limited, however, by our desire to focus, by our reluctance to duplicate where good work is being done by other organizations, and, of course, by our resources. The principle underlying the Institute's efforts is competitiveness. Canada has a great opportunity to capitalize on the challenges of the 1990s, but only if government, business, the labor

Planning the week ahead.

movement, and educational institutions each concentrate on one issue: what they can do to make the country more productive and more competitive.

After the recent events in Eastern Europe, no one can doubt the pervasiveness of the change that is sweeping the globe. As of this accounting, we can indicate the Institute's direction. But we must also keep our powder dry, in order to provide relevant and well-researched analyses of important developments where the outcome is as yet unknown. The fate of the Meech Lake Accord, the embryonic trade negotiations between the United States and Mexico, world agricultural policies, and, of course, the Uruguay Round come to mind.

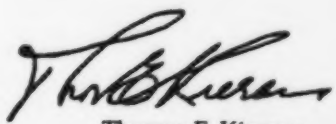
"We must keep our powder dry, in order to provide relevant and well-researched analyses of important developments where the outcome is as yet unknown."

To provide the most in-depth and authoritative studies of public policy issues, the Institute relies on a plethora of sources, including its own dedicated team of talented Senior Policy Analysts, as well as a pool of Canada's most respected economists. And starting this year, three influential academics join the Institute's own Scholars-in-Residence program: G. Bruce Doern, from Carleton University; David Laidler, from the University of Western Ontario; and Thomas A. Wilson, from the University of Toronto.

In communicating its views, the Institute strives to make its publications as succinct and readable as possible. At the same time, we are expanding the Policy Roundtables program, which provides the Institute's members an off-the-record opportunity to hear and interact with those individuals who can best speak to the key issues of the day. And we are stressing the desirability of feedback — many of our members can contribute significantly, on any issue, at any given time. Through this interaction and our responses to

"We pride ourselves on being a constructive part of the solution, not just a critic of the problem. We intend to keep it that way."

unfolding events, we intend to keep the C.D. Howe Institute firmly in the place it has occupied for seventeen years — at the center of the public policy formation process. We pride ourselves on being a constructive part of the solution, not just a critic of the problem. We intend to keep it that way.



Thomas E. Kierans
President

In the Heat of the Debate

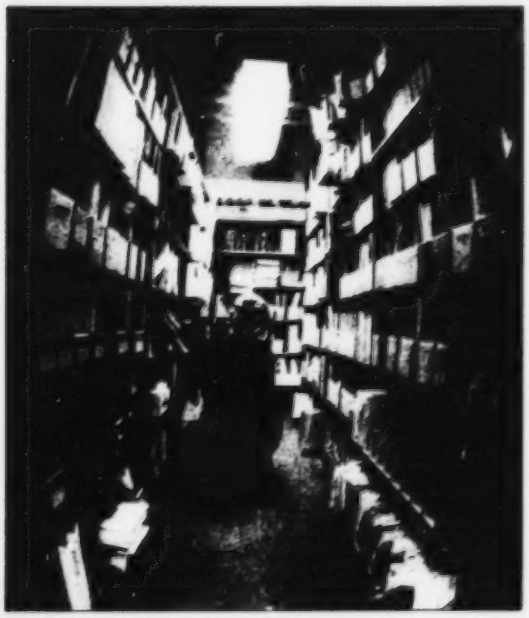
17 Years of Intelligent Policy Commentary

1973: *Seeking a Broader Mandate*

The C.D. Howe Memorial Foundation and the Private Planning Association of Canada merge to create the Montreal-based C.D. Howe Research Institute. The Institute's mandate, according to Executive Director Carl Beigie, is "to undertake short-term economic policy analysis, especially in international trade policy and federal government budgetary programs." Its three basic goals for policy analysis are objectivity, professionalism, and relevance.

1977: *Examining Quebec's Role in Confederation*

The Institute launches its "Accent Quebec" program, an influential series of studies focusing on the economic aspects of the Canada-Quebec relationship and examining the changing regional balance of economic development in Canada.



The Institute's library.

1978: *Encouraging Responsible Federal-Provincial Relations*

In an open letter, the Institute encourages Canada's First Ministers to use their conference as a springboard for constructive initiatives in economic policy. It also recommends joint action by federal and provincial ministers on new approaches to regional disparities and to structural policies to reduce inflation.

Carl Beigie becomes President of the Institute.

1979: *Harmonizing Industrial Strategy*

Judith Maxwell, Director of Policy Analysis, tells a Senate committee that the increased political and economic strength of the provinces has evolved hand-in-hand with growing differences between provincial and national interests. "We do not pretend," she says, "that the country can develop a single national industrial strategy, but we must avoid having 11 governments pursuing 11 conflicting strategies."

1980: *Avoiding a Single-Issue Focus*

The *Financial Post* rates the Institute as one of the most influential policy think tanks in Canada.

The Institute takes a strong position in the national debate on energy policy and continues to press for fiscal and tax policy changes. Appearing before the Senate Finance Committee, Senior Economist Wendy Dobson urges deficit reductions "not by across-the-board spending cuts but by reform of the tax and expenditure system to achieve greater efficiency."

The Institute establishes new regional committees in Quebec and Western Canada.

1981: *Reorganizing for the 1980s*

The Institute reorganizes to develop its greatest asset — the ability to contribute serious, balanced research

and policy analysis. Its name is changed to the C.D. Howe Institute, and the Canadian Economic Policy Committee becomes the C.D. Howe Institute Policy Analysis Committee. Wendy Dobson becomes the Institute's Executive Director.

1982: Weathering a Year of Challenge

The Institute, along with the rest of Canada, feels the effects of the most severe recession since the 1930s, but research continues at a hectic pace, with publications on topics as varied as Canadian monetary policy, acid rain, and the GATT.

The Institute moves its head office from Montreal to smaller quarters on the campus of York University's Glendon College in Toronto.

Opening the Institute's new headquarters in Toronto in 1985: (from left to right) Institute Chairman Michel Bélanger, Mary J. Dodge, Barbara H. Marshall (daughters of C.D. Howe), and the Hon. James F. Kelleher, Minister for International Trade.

1985: Focusing the National Debate

The Institute calls for further reduction in the federal deficit and for changes in Canada's trade policy. *Taking the Initiative*, by Richard Lipsey and Murray Smith, becomes an Institute bestseller.

Wendy Dobson becomes President, and the Hon. James F. Kelleher, Minister for International Trade, opens the Institute's new national headquarters at 125 Adelaide Street East in Toronto.

1987: Examining Canada's Trade Policy

With national attention growing on the free trade issue, Institute studies contribute to increased understanding of this complex initiative. In *Global Imbalances and U.S. Policy Responses*, Richard Lipsey and Murray Smith examine U.S. protectionism; in a commentary, the Institute recommends that Canadian trade negotiators aim for an effective dispute settlement mechanism. The Institute also launches its *Trade Monitor* series.

Maureen Farrow becomes President of the Institute.

1988: Addressing Major Policy Initiatives

The Institute's policy agenda is dominated by international economic concerns, tax and social policies, and sectoral and regional issues. The Institute's authoritative voice is heard frequently in the national debate on free trade, and thousands of Canadians learn the facts about the historic agreement from *Evaluating the Free Trade Deal*, by Richard Lipsey and Robert York. The Institute also continues to focus on multilateral trade, with studies on the GATT and Canadian-Japanese economic relations.

1989: Gearing Up for the 1990s

The Institute focuses on deficit reduction, Canadian-U.S. relations, and the federal government's next agenda in this year of consolidation and renewal. The *Fiscal Policy Monitor* series is launched, and Seymour Martin Lipset's *Continental Divide* takes a fascinating look at cultural and institutional differences between Canada and the United States. *Ottawa's Next Agenda*, Policy Review and Outlook, 1989, becomes the best-selling title to date in this annual series.

In September, Thomas E. Kierans becomes the Institute's President.

Books that Made a Difference

Institute Publications Over the Years

To be there, in the heat of the debate about public policy issues of concern to all Canadians, with a clear, authoritative, and reasoned argument — that has been the aim of the C.D. Howe Institute's publishing program.

Since its inception in 1973, the Institute has published scores of studies covering subjects as diverse as Canada itself. All of these publications have met the Institute's criteria of timeliness and relevance, but a few made a real difference.

Marsha Gordon
Monetary Policy in Transition
A Study of Bank of Canada Policy, 1982–85
Policy Study No. 1
C.D. Howe Institute
C.D. HOWE INSTITUTE
An Analysis of Monetary Gradualism, 1975-80
TACKLING THE FEDERAL DEFICIT
Edward A. Carmichael

In 1976, Thomas J. Courchene's *Money, Inflation, and the Bank of Canada* launched the Institute's on-going series of studies of the conduct of Canadian monetary policy. In 1977, Courchene followed up this first volume with a supplement entitled *The Strategy of Gradualism*, and in 1981 he added the second volume of *Money, Inflation, and the Bank of Canada*. In 1986, Peter Howitt took over the series with *Monetary Policy in Transition*, a publication hailed in one press review as "a major event in Canadian macroeconomic policy circles, and all the more so because it is stamped with the trademark of readability of the C.D. Howe Institute."

In a 1979 study for the British-North American Committee entitled *Inflation is a Social Malady*, Carl Beigie argued that control over pernicious inflation is a prerequisite to sustained progress in resolving most other economic problems.

Marsha Gordon's *Government in Business*, published in 1981, was a comprehensive study of the role of federal and provincial Crown corporations. The first of its kind in North America, this study has stood as a milestone piece of research on the topic, and continues to sell nearly a decade after its release.

In 1984, concern about the size of the federal deficit led to the publication of Edward A. Carmichael's *Tackling the Federal Deficit*, a thoughtful study of Canada's fiscal predicament. The book received extensive media attention, including front-page coverage in the national press.

The centerpiece of the 1985 publishing program was *Taking the Initiative: Canada's Trade Options in a Turbulent World*, by Richard G. Lipsey and Murray G. Smith. This influential and seminal study, prepared before the Canada-U.S. trade negotiations got under

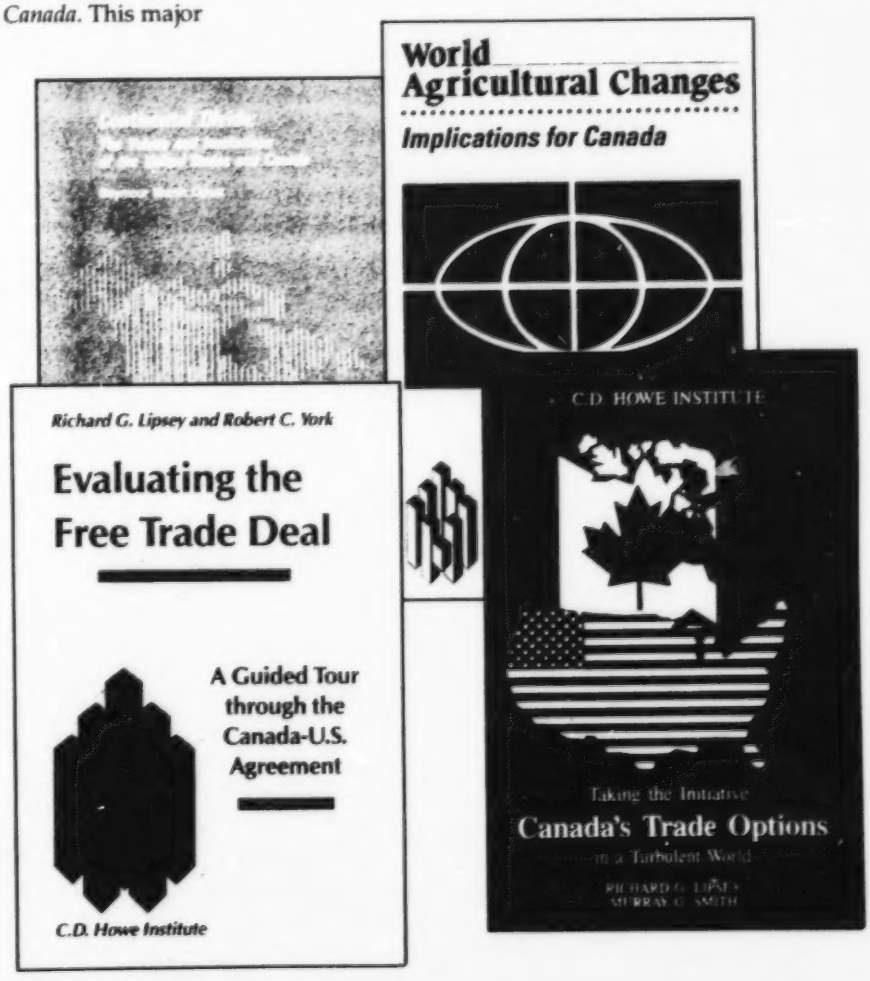
way, examined the backdrop to Canadian trade policy and presented the Institute's view that Canada's long-term economic interests were best served by pursuing trade liberalization with the United States.

Taking the Initiative was followed up in 1988 by *Evaluating the Free Trade Deal: A Guided Tour through the Canada-U.S. Agreement*, by Richard G. Lipsey and Robert C. York. Released at the height of the impassioned debate on free trade that preceded the federal election, this study quickly became the Institute's all-time bestseller. Nationally syndicated newspaper columnist William Johnson of the *Montreal Gazette* wrote: "At last. All you ever wanted to know about the free trade agreement....The book will answer most of your questions. And it makes the deal look very good."

In 1989, the Institute released J.C. Gilson's *World Agricultural Changes: Implications for Canada*. This major study examined Canada's challenge to maintain an economically viable agricultural industry and urged that Canada replace farm-support programs with trade-neutral alternatives. The book has attracted considerable attention in Western Canada and abroad.

In the late 1980s, the Institute shifted its focus to social and cultural issues. In 1987, Thomas J. Courchene's *Social Policy in the 1990s: Agenda for Reform* provoked considerable comment from the media and policymakers alike. The *Toronto Star* noted that "whenever the herd goes charging off in one direction, you can usually find one thoughtful individual [ie. Courchene] walking the other way." A senior policymaker in Ottawa commented that Courchene's study "reinforced my sense of the real value of the work that the C.D. Howe Institute has generated in the area of social policy reform."

In 1989, the Institute, under the auspices of the Canadian-American Committee, published *Continental Divide*, an examination of the differing values and institutions of the United States and Canada by renowned American sociologist Seymour Martin Lipset. Lipset's comments on the potential effects of the Free Trade Agreement on Canada's political and cultural sovereignty attracted considerable attention. "Lipset is a plain, common sense speaker and writer," noted columnist Douglas Fisher. A federal cabinet minister expressed the view that "Dr. Lipset's perspective on the Canada-U.S. relationship promises many rich hours of reading." A trade edition of the book was published by Routledge in Spring 1990.


World Agricultural Changes
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C.D. HOWE INSTITUTE
Richard G. Lipsey and Robert C. York
Evaluating the Free Trade Deal
A Guided Tour through the Canada-U.S. Agreement
C.D. Howe Institute
Taking the Initiative
Canada's Trade Options

In the Public Arena

Communicating with Our Audience

Communicating its views and findings to a broad public audience is an essential component of the Institute's mandate. Conferences, roundtables, workshops, submissions to government, and the activities of senior staff, especially the President, are the principal means by which the Institute reaches the public. Over the years, the quality of these activities has attracted widespread media interest, and journalists regularly report on Institute projects and seek the Institute's comments and views on public policy issues.

Timely, provocative conferences are becoming an increasingly important element of the Institute's activities.

Timely, provocative conferences are becoming an increasingly important element of the Institute's activities. In January 1988, shortly after the signing of the Canada-U.S. Free Trade Agreement, the Institute and the Faculty of Management at the University of Toronto cosponsored a conference on "Business Strategies and Free Trade" that drew more than 200 people.

In January 1990, environmental policy was the concern when 50 of Alberta's leading executives from the energy sector attended an Institute conference in Calgary chaired by Tom Kierans and Institute Chairman Jack MacLeod. With the help of a carefully selected group of speakers, participants confronted the complex economic, political, and technological issues associated with the environment and learned how the energy industry and specific companies were handling the environmental challenge. A collection of the papers presented at the conference will soon be published.

Other conferences held recently or coming soon include a high-level exchange on "Zero Inflation: The Goal of Price Stability" and a wide-ranging public policy briefing for senior Canadian journalists.

While conferences permit the Institute to take a multifaceted approach to the issues, Policy Roundtables and dinners bring together members and invited guests for small, off-the-record sessions. In Toronto, recent speakers have included Stanley Hartt, Chief of Staff, Office of the Prime Minister; Gordon Ritchie, Chief Executive Officer, Strategicon Inc., and former Deputy Chief Negotiator for the Free Trade Agreement; and New Brunswick Premier Frank McKenna, who helped to launch *Getting It Right*, Policy Review and Outlook, 1990.

In the coming months, the Institute looks forward to hosting such outstanding guests as Derek Burney, Canada's Ambassador to Washington, and U.S. Ambassador to Ottawa Edward Ney.

Through the Western Regional Committee, the Institute also organizes Roundtables in Vancouver, Edmonton, Calgary, Regina, and Winnipeg, where the

Lou Hollander, Robert de Cotret, and Robert D. Brown get together at a recent Institute meeting in Ottawa.

Roundtables offer Institute members an opportunity to discuss key policy issues in an informal setting.

President outlines the Institute's research agenda and reviews the nation's public policy directions.

The Institute also receives visitors from many foreign governments, research institutes, and newspapers. Recent international guests have included representatives of the Centre for Policy Research, New Delhi; the Sanwa Research Institute, Tokyo; the Thailand Development Research Institute, Bangkok; government officials from Britain, Australia, and

Policy Roundtables and dinners bring together members and invited guests for small, off-the-record sessions.

Argentina; New Zealand High Commissioner to Canada, Bruce Brown; and delegations of reporters from West Germany and Sweden.

Another noted visitor was Soviet economist Dr. Vladimir V. Popov, who intrigued members at a Policy Roundtable with his views on the state of the Soviet economy. In a *Trade Monitor* entitled "Perestroika: An Insider's View," Dr. Popov, Senior Research Fellow at the Institute of the U.S.A. and Canada in Moscow, wrote that economic reform in the Soviet Union should involve a move to a full-fledged market economy. He said Soviet economic reforms so far have created more problems than they have solved, and suggested that it would take at least five to seven years to achieve significant improvements in Soviet economic efficiency, even without what he called "bureaucratic sabotage."

Typically, the activities of Institute staff members themselves garner the most attention. In early 1989, then-Senior Economic Advisor Richard Lipsey's lecture at the University of New Brunswick on the probable effects of free trade was clearly of national import. Senior Policy Analyst Irene Ip made complex fiscal

The activities of Institute staff members themselves garner considerable attention.

analyses accessible as a frequent radio call-in guest. The *Toronto Sun* quoted her as saying that "any surge of revenue growth encourages government to find new things to spend money on."

In an extensive interview, the *Financial Times of Canada* featured then-President Maureen Farrow's comments on the mergers and acquisitions tide sweeping North America, while Vice-President Edward A. Carmichael's contention that the pace of privatization would increase prompted a major feature by the *Ottawa Citizen*.

Policy Analyst Robert York travelled to New Zealand to talk about freer trade and, with Richard Lipsey, made a major contribution to a special report on the Free Trade Agreement published in the *New York Times*. Policy Analyst Bill Robson helped the Institute to keep tabs on the Goods and Services Tax and provided a pre-budget commentary.

The Institute's new president, Tom Kierans, quickly established his presence. As former chairman of a committee to review energy options for the federal government, his argument that Petro-Canada should be in private hands was quoted extensively. And in January 1990, he began writing a monthly column for the *Globe and Mail*'s "Report on Business Magazine."

Exchanging Views

The Committees

The British-North American Committee (BNAC)

Both Finance Minister Michael Wilson and Bank of Canada Governor John Crow helped the BNAC to celebrate its 20th anniversary at the December 1989 meeting in Montreal. The occasion marked the third time the Committee had met in Canada since its founding meeting in New York City in December 1969.

BNAC members have been hosted at special receptions by George Shultz and Margaret Thatcher.

Established "to study and comment upon the developing relationships between Britain, the United States and Canada," the BNAC meets twice a year and operates under a three-fold mandate: to promote clearer understanding of the economic opportunities and problems facing the three countries, to explore areas of cooperation and of possible friction, and to discuss constructive responses.

BNAC meetings attract prominent and knowledgeable guests and speakers. Over the years, they have included Peter Lougheed, David Stockman, Brent Scowcroft, Paul Volcker, and Geoffrey Howe. Members have also been hosted at special receptions by George Shultz, a former member, and Margaret Thatcher. Subjects are wide ranging. At the December 1989 meeting in Montreal, David Hale, Chief Economist for the Washington-based Kemper Funds, gave a masterful presentation on the implications of Japan's growing financial role. And at the June 1989 meeting in London, Sir Crispin Tickell, U.K. Ambassador to the United Nations, provided a fascinating historical perspective on the effects of even small changes in mean global temperatures, while Michael Kaser, Director of the Institute of Russian, Soviet and East European Studies, Oxford University, offered a cogent assessment of Mikhail Gorbachev as the "lightning rod" for political reforms.

North American Co-Chairman: W.I.M. Turner, Jr., Chairman and Chief Executive Officer, PCC Industrial Corporation.

The Canadian-American Committee (CAC)

The special relationship between Canada and the United States is the purview of the CAC, established in 1957. That relationship comes under close scrutiny twice yearly when the CAC meets, attracting high-profile guests and speakers such as Massachusetts Governor Michael Dukakis, Nobel Laureate John Polanyi, and Quebec Premier Robert Bourassa.

Not surprisingly, the Canada-U.S. Free Trade Agreement has been a topic of discussion at a number of CAC meetings, including the March 1989 session in

Massachusetts Governor Michael Dukakis greets Professor Fredric Menz of Clarkson University (center) and the Institute's Robert York (right) at a recent Canadian-American Committee meeting in Boston.

Boston. Participants in the panel included then-Ambassador Peter Murphy, the U.S. Special Negotiator for the Agreement, Dr. David Leyton-Brown, Associate Dean of Graduate Studies at York University, and Gérard Docquier of the United Steelworkers of America, who argued that Canadian workers needed better adjustment assistance in order to benefit from free trade.

However, everything from hazardous waste disposal to the differences between elementary school education and Arctic sovereignty have also been the focus of the CAC's attention.

Institute President Tom Kierans and the Hon. Michael Wilson, Minister of Finance, exchange views at a recent HIPAC meeting in Ottawa.

Books published under the auspices of the CAC invariably attract comment north and south of the border. Apart from U.S. sociologist Seymour Martin Lipset's popular book on the differences and similarities between the two countries, which came out in 1989, recent CAC publications include the ground-breaking *Outward Bound: Canadian Direct Investment in the United States*, by Alan Rugman, and *Global Imbalances and U.S. Policy Responses*, by Richard Lipsey and Murray Smith.

Chairman: Adam H. Zimmerman, Chairman, Noranda Forest Inc.

The C.D. Howe Institute Policy Analysis Committee (HIPAC)

HIPAC is the Institute's main internal standing committee (as opposed to the BNAC and CAC, which are cosponsored with other international institutions).

The Institute gains important insights from the lively discussions that take place among HIPAC members.

In drawing up its policy agenda, the Institute gains important insights from the lively discussions that take place among HIPAC members, who reflect a broad range of opinion from business, labor, and academia. Canada's regional diversity is also evident at HIPAC's twice-yearly meetings, where members have an opportunity to exchange views on emerging policy issues. Most recently, the dollar, the GST, Japan's economic culture, and the politics of policy have all been the subject of debate.

HIPAC's roots go back to 1961 through its predecessor groups, the Canadian Trade Committee and the Canadian Economic Policy Committee.

Chairman: H.A. Hampson, businessman and investor

The Western Regional Committee (WRC)

Formed in 1981, the WRC brings together leading Western Canadian opinionmakers at yearly roundtables and day-long conferences. Institute members and their guests provide an important regional perspective on national and international issues.

At a full-day meeting in Vancouver in 1989, the WRC examined the policy agendas of both Canada and the United States, and the changes becoming evident in world trade relationships. And at the May 1989 Roundtable series, Maureen Farrow outlined the policy implications of the federal budget while Professor Clay Gilson of the University of Manitoba presented an overview of the implications for Canada of changes in world agriculture.

Chairman: Kent Jespersen, President, Foothills Pipe Lines (Yukon) Ltd.

Spreading the Word

The 1989 Publishing Program

The Institute's 1989 publications program continued to focus on key policy issues facing the Canadian economy, such as the Canada-U.S. Free Trade Agreement and federal fiscal policy, as well as international issues as diverse as agriculture, the restructuring of the Soviet economy, and the future of the North Atlantic Treaty Organization.

Throughout the continuing debate on the merits of the Canada-U.S. Free Trade Agreement, the collateral question of the Agreement's impact on Canada's political and cultural sovereignty surfaced frequently. Critics contended that a "level playing field" for business implied fundamental social and political changes which would "Americanize" Canada.

In his landmark study, *Continental Divide*, Dr. Seymour Martin Lipset of Stanford University found that Canada and the United States "remain two nations formed around sharply different organizing principles. Their basic myths vary considerably, and national theses and structures are determined in large part by such images." Despite the closer economic ties resulting from the Agreement, Dr. Lipset said, Canada and the United States "still march to a different drummer, as did the rebels and the loyalists, the Whigs and the Tories, two centuries ago."

In a *Trade Monitor*, Alan Rugman and Andrew Anderson identified the working of the Free Trade Agreement's dispute settlement mechanism as the "litmus test" for the deal. The battle to contain protectionist U.S. trade measures has not yet been won, the authors cautioned. They also urged the federal government to encourage Canadian business to participate in examining harmful U.S. subsidy practices, and they warned that the subsidy negotiations must be completed on the U.S. "fast-track" system.

In two *Fiscal Policy Monitor* publications, Maureen Farrow and Bill Robson urged the federal government to adopt a sound deficit-reduction policy in its April budget, and then reviewed the budget the government introduced.

In another *Fiscal Policy Monitor*, Robert D. Brown examined the issues underlying the need to replace the federal manufacturers' sales tax with a tax on goods and services.

The Studies

Brown, Robert D. *The Other Shoe — The GST: Stage Two of Tax Reform*, Fiscal Policy Monitor 3 (November 1989). 16 pp.; $5.00.

Lipset, Seymour Martin. *Continental Divide: The Values and Institutions of the United States and Canada*, Canadian-American Committee 59 (October 1989). Out of print; a trade edition has been published by Routledge.

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Advisor Harold Corrigan with Receptionist Julie Thompson.

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The Institute at work.

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Auditors' Report

The Members,
C.D. Howe Institute

We have examined the balance sheet of the C.D. Howe Institute as at December 31, 1989, and the statement of income, expenses, and accumulated revenue for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Institute as at December 31, 1989, and the results of its operations for the year then ended in accordance with accounting policies as described in Note 1 to the financial statements, applied on a basis consistent with the preceding year.

Touche Ross & Co.
Chartered Accountants
Toronto, Ontario
January 8, 1990

C.D. Howe Institute

(Incorporated under Part II of the Canada Business Corporations Act)

Balance Sheet as at December 31, 1989

Assets	1989	1988
Current		
Cash	$ 16,881	$ 1,388
Deposits at interest (Note 2)	182,280	123,796
Marketable securities — at cost (Note 3)	467,968	294,333
Accounts receivable and accrued interest	39,198	40,094
Prepaid expenses	3,228	4,806
	709,555	464,417
Fixed		
Furniture and fixtures	191,115	161,135
Less accumulated depreciation	131,867	83,950
	59,248	77,185
	$768,803	$541,602
Liabilities		
Current		
Accounts payable and accrued liabilities	166,755	113,795
Unearned revenue	12,768	12,768
	179,523	126,563
Capital, Accumulated Revenue, and Reserve		
Capital	212,898	212,898
Accumulated revenue	260,399	113,909
	473,297	326,807
Reserve for repairs (Note 5)	104,983	77,232
Reserve for bequest and endowment fund (Note 6)	11,000	11,000
	589,280	415,039
	$768,803	$541,602

Approved on behalf of the Board

Jack M. MacLeod, Chairman

Adam H. Zimmerman, Vice-Chairman

See accompanying notes to financial statements

Statement of Income, Expenses, and Accumulated Revenue for the Year Ended December 31, 1989

	1989	1988
Income		
Members' contributions	$1,152,140	$ 982,175
Sales of publications	30,200	67,369
Contract revenue	10,100	43,266
C.D. Howe Memorial Foundation grant	62,500	150,000
Other income	168,385	215,270
	1,423,325	1,458,080
General, administrative, and project expenses	1,188,918	1,340,537
Depreciation	47,917	38,836
Allocation to reserve for repairs	40,000	30,000
Allocation to reserve for bequest and endowment fund	—	10,000
	1,276,835	1,419,373
Excess of income over expenses and allocations	146,490	38,707
Accumulated revenue, beginning of year	113,909	75,202
Accumulated revenue, end of year	$ 260,399	$ 113,909

See accompanying notes to financial statements

Notes to Financial Statements, December 31, 1989

1. *Summary of significant accounting policies*

   a. The financial statements of the Institute have been prepared on the accrual basis of accounting, except for contributions which are recorded as received.

   b. Monies received on account of specific future contracts are recorded as unearned revenue when received, and are taken into income in the period in which the related expenses are incurred.

   c. Fixed asset additions are recorded at cost. Depreciation is calculated using the straight-line basis at 33⅓% per annum for computer equipment and 10% per annum for all other fixed assets.

   d. Publications are not recorded as inventory, and all costs associated with their production are expensed as incurred.

2. *Deposits at interest*

   Cash is maintained in a treasury account requiring a minimum balance of $100,000 and receiving interest at the bank prime rate less 3%.

3. *Marketable securities*

	1989	1988
Treasury bills		
Canadian	*$467,968*	$ 29,465
Province of British Columbia	—	68,203
Banker's acceptance		
Toronto Dominion Bank	—	97,619
Royal Bank of Canada	—	99,046
	$467,968	$294,333

4. *Commitments*

   Future minimum operating lease commitments for office space are approximately $25,000 per annum for the years 1990 through 1994, and $275,000 in the subsequent 11 years, for a total of $400,000. Annual payments are increased at five-year intervals commencing in 1990 to include 66⅔% of the increase in the Consumer Price Index for the preceding five-year period. Such increases are not reflected in the above amounts.

5. *Reserve for repairs*

	1989	1988
Balance at beginning of year	*$77,232*	$47,232
Allocation for year	*40,000*	30,000
Less: Payments during year	*12,249*	—
Balance at end of year	*$104,983*	$77,232

6. *Reserve for bequest and endowment fund*

   In 1988, the Institute began a program to accumulate a capital fund comprised of gifts and bequests from the public. These contributions can be either restricted to a particular purpose or unrestricted in their use.

	1989	1988
Balance at beginning of year	*$ 11,000*	$ —
Contributions received during the year	—	1,000
Allocation for the year	—	10,000
Balance at end of year	*$11,000*	$11,000

7. *Income tax status*

   The Institute is a registered charity exempt from paying taxes under Section 149(1)(f) of the Income Tax Act.